

Bond Rating

AAA/Aaa

Total City Debt

112,438,242

Popular Annual Financial Report



FISCAL YEAR ENDING JUNE 30, 2008

Land Area

13.03 miles

Estimated Population

63,170

City Net Assets

271,450,478

Unemployment Rate

3.08



Table of Contents

Letter from the City Manager	3	The City's General Fund	6
The City's Profile	4	The City's Proprietary Funds	8
The City's Financial Structure	5	Summary of the City's Debt	12
The City's Property Tax Rate	5	The City's Capital Improvements Program (CIP)	13
Summary of the City's Overall Financial Position	6	Major FY08 Initiatives	13

Report to Rockville Residents

It is our privilege to present to you the Popular Annual Financial Report (PAFR) for FY08 (July 1, 2007 – June 30, 2008). The purpose of the PAFR is to summarize the City of Rockville's financial position at the end of FY08 in an easy to read and understandable format. Specifically, the PAFR will highlight how your tax dollars were spent in FY08 and major FY08 City initiatives that were substantially paid for or completed. All financial numbers in the PAFR are actual audited and not estimates unless otherwise noted.

The PAFR includes financial information presented in the City of Rockville's FY08 Comprehensive Annual Financial Report (CAFR) and

future information as estimated in the City's FY09 Adopted Budget. The City's PAFR is designed to summarize and combine accounting data in an effort to make the City's finances more understandable. The PAFR does not comply with Generally Accepted Accounting Principles (GAAP) requirements; residents who prefer to review an independently audited GAAP compliant report should review the CAFR.

The PAFR, CAFR and the City's Adopted Budget are available on the City's Web site at <http://www.rockvillemd.gov/government/finance.htm>. A resident can also contact the Finance Department at 240-314-8400 to request a copy of the documents.

Award Given for Rockville's PAFR

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the City of Rockville for its Popular Annual Financial Report for fiscal year ended June 30, 2007. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to the program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO
City of Rockville
Maryland
for the Fiscal Year Ended
June 30, 2007



Michael R. ...
President
Jeffrey L. ...
Executive Director

Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

City of Rockville Mayor and Council (Elected Nov. 2007 to Nov. 2009)



Susan R. Hoffmann,
Mayor



John B. Britton,
Councilmember



Piotr Gajewski,
Councilmember



Phyllis Marcuccio,
Councilmember



Anne M. Robbins,
Councilmember

Annual Report • Fiscal Year 2008

(July 1, 2007 to June 30, 2008)

Scott Ullery, *City Manager*

Catherine Tuck Parrish, *Deputy City Manager*

Prepared by the Department of Finance

Division of Budget

Gavin Cohen, *Director of Finance*

Stacey Tate, *Budget and Finance Officer*

Mary Sue Martin, *Management and Budget Analyst*

Erica Tompkins, *Management and Budget Analyst*

Letter from the City Manager

The City ended Fiscal Year 2008 (July 2007 to June 2008) in a very healthy position. The City's General Fund, our main operating fund, ended the year \$5.78 million (9%) above our required reserve amount of \$9.28 million. An explanation of the General Fund can be found on page 6 of the PAFR. In FY08 the City continued candid discussions on the financial condition of our proprietary funds. As a result of these conversations the Mayor and Council made key policy decisions in FY08, including:

- Establishing a once-per-week, single stream refuse and recycling program;
- Increasing the City's water rates by 25% in FY09 with a plan to continue the increases until FY12;
- Modifying the City's Stormwater Management (SWM) ordinance to authorize a fee to stabilize the SWM Fund; and
- Continuing only modest increases in the City's Sewer fees.

A discussion of the City's proprietary funds begins on page 8 of the PAFR.

On May 19, 2008 the Mayor and Council adopted a balanced Operating and Capital Improvements Program budget for FY09 (July 1, 2008 – June 30, 2009). The total operating budget for all funds equals \$102.7 million. The General Fund budget increased by 5% to \$61.8 million, and included a one penny reduction in the real property tax rate for the third consecutive year from \$0.302 to \$0.292 per \$100 of assessed valuation. Although the City is operating in a difficult economy, with many local governments facing deficits, there are no immediate revenue

concerns or large unplanned expenditures anticipated for FY09.

As the PAFR goes to print, the City is preparing the FY10 Operating and Capital Improvements Program budgets. The City will likely face financial challenges in FY10 and future budget years. In FY08 revenues from other governments made up 29% of the City's General Fund revenue. In FY10, the State of Maryland and Montgomery County will experience budget shortfalls, and in the past they have balanced their budget by reducing funding for municipalities. Although it is too early to know the exact impact on intergovernmental revenues, the City will monitor and estimate conservatively these revenues in FY10 and in future years.

While uncertainties and challenges lie ahead, so do many opportunities. The City's financial policies and conservative fiscal approach allow the City to sustain its strong financial position for FY09 and beyond. Our financial strength and commitment to public service enable us to anticipate and adapt to the changing needs of our community. As Rockville continues growing in size and complexity, the City government must keep pace.

Respectfully,

Scott Ullery, *City Manager*



Scott Ullery

Governmental Funds Structure

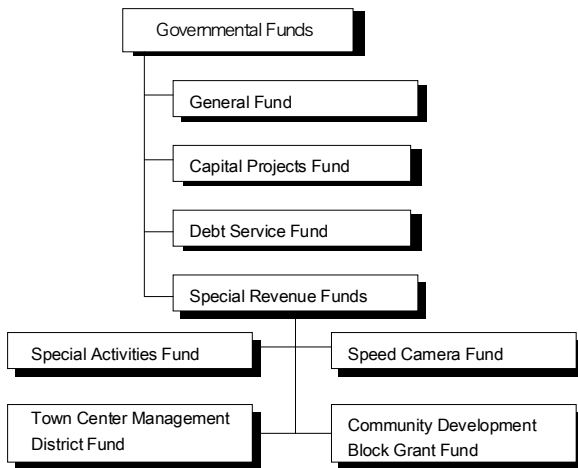


Chart A

Proprietary Fund Structure

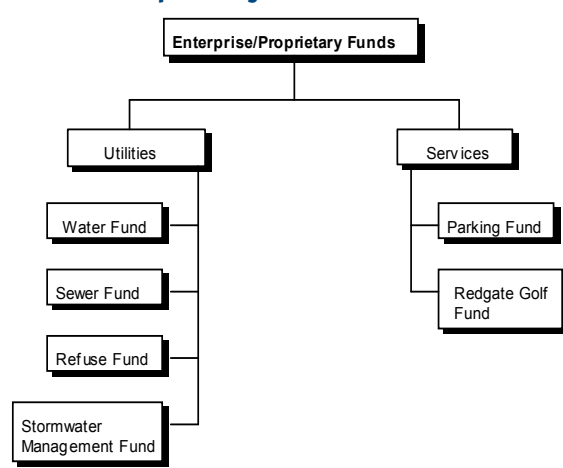


Chart B

The City's Profile

The City of Rockville, Maryland, incorporated in 1860, is located 12 miles northwest of Washington, D.C. Rockville is the third largest city in the State of Maryland and was recently ranked as one of the Top 100 Best Places to Live in the August 2008 edition

Rockville at a Glance in FY08

Land Area	13.03 miles
Park and Public Open Space.....	1,050 acres
Population*	63,170
Unemployment Rate*	3.08%
Number of Households**	21,895
Medium Household Income**	\$85,640
Number of Jobs***	27,436
City Real Property Tax Rate‡.....	\$0.292
City Personal Property Tax Rate‡	\$0.805
No. of City Water Accounts.....	12,610
Bond Rating.....	AAA/Aaa
Total City Debt	\$112,498,242
City Net Assets	\$271,450,478
City Unrestricted Net Assets	\$59,741,587
Full-time City Employees.....	535

*Source: City of Rockville, Department of Community Planning and Development Services 2008 estimates.

**Source: 2005 Census Update Survey, Research and Technology Center, Montgomery Co. Planning Dept., M-NCPPC June 2006.

***Source: Rockville Economic Development, Inc.

‡Current rate per \$100 of assessed value.

of *Money Magazine*. Rockville was chosen as one of America's best small cities for families because of its ample job opportunities, excellent schools and low crime. Rockville is a residential community and an employment center. The City has an employed labor force of approximately 83,972.

The City operates under the council-manager form of municipal government. The governing body is the Mayor and Council, which formulates policies that are implemented by the City administration. The Mayor and Council are comprised of a mayor and four council members who are elected every two years.

The City of Rockville provides a full range of services including: public safety, water, sewer, stormwater management, refuse, recycling, licensing, permits, inspections, snow removal, leaf collection, street maintenance, parking, zoning, planning, public parks and recreation programs including a municipal golf course. A handful of the City's services are provided in partnership with other governmental and nonprofit entities. Rockville citizens are provided protection by both the Montgomery County and Rockville Police forces. In outlying areas of the City, water service is provided by the Washington Suburban Sanitation Commission (WSSC). The City's fire protection and education system are provided by the County.

Property Tax Rate Comparison

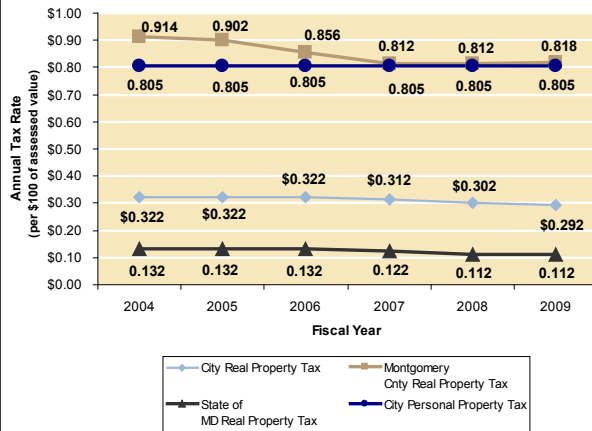


Chart C

Real Property Reassessment Areas and Dates

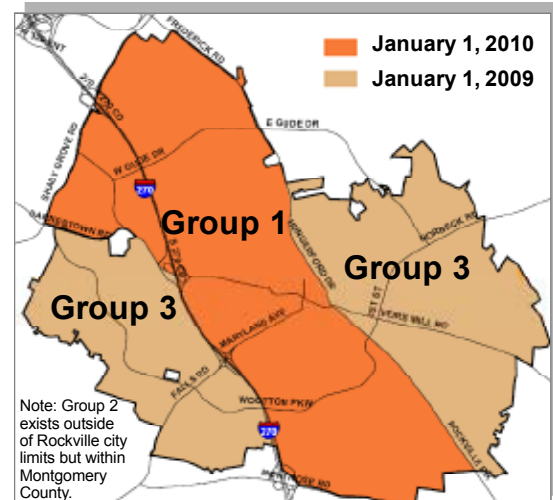


Chart D

The City's Financial Structure

The City currently maintains thirteen individual funds, which are separated into either Governmental Funds or Enterprise/Proprietary Funds. (Refer to Chart A and B on page 4.)

The Value of Real Property Tax Relief Provided to the Resident's of Rockville

	FY06	FY07	FY08
Tax Rate Reduction	—	900,000	1,009,321
Homeowner's Tax Credit	73,200	194,040	195,579
Income Tax Offset	—	—	1,527,400
Total Relief Provided	\$73,200	\$1,094,040	\$2,732,300

The City's Property Tax Rate

For several years both new development and property values have increased significantly. From FY07 to FY08 the City's actual assessed real property value increased by 12.7% to \$10,148,794,995. The City expects another double-digit increase from FY08 to FY09, although this trend is not likely to continue because the rate of development has slowed and properties are being reassessed at lower values.

For the last three fiscal years, the Mayor and Council have approved a one penny reduction in the real property tax rate. In FY08 and FY09, the Mayor and Council also provided a one-time \$100 credit per residential property, and continued with the Homeowners' Tax Credit Program targeting low-income taxpayers. In FY09, the Mayor and Council added a new program that focused on tax relief for Rockville's senior citizens. This tax credit was administered through the Homeowners' Tax Credit Program and was available to seniors who qualified for the Homeowners' Tax Credit and who were at least 70 years of age and a primary homeowner. The City's personal property tax has remained unchanged during this time period at \$0.805 per \$100 of assessed value.

Starting in FY10, the City anticipates that assessed property values (and hence property tax revenue) will increase at a much slower rate. All properties in the City of Rockville will be reassessed in January 2009 or January 2010, and the possibility exists that some reassessments might equal or be lower than the prior assessment. (Refer to Chart C and D above.)

Rockville's Population and General Fund Comparisons 2004-2008

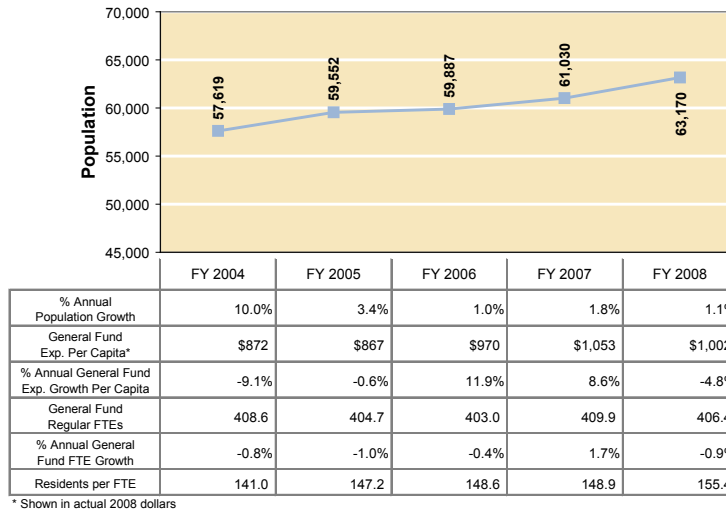


Chart E

Summary of the City's Overall Financial Position

In total, overall net assets (*see pg. 10 for definition*) increased by \$19.6 million to \$271.5 million. This means that the City's varied revenues were more than sufficient to cover expenses. Although there was an increase in net assets the City did experience increases and decreases in certain revenues. Decreases in revenue occurred because some capital grants and contributions ended when Town Square was completed, and because there were fewer water and sewer connections because of less new development in the area. Increases in revenue occurred because of the speed camera program and the red light camera operations.



The City's General Fund

The City's governmental activities include general government, public safety, streets, economic development, community development, community services, and parks and recreation. The General Fund is the City fund that supports the majority of governmental activities. In FY08 the City received \$93.6 million in revenue across all funds and the General Fund accounted for 65% or \$61.3 million of the total revenue received. In FY08 the City's total expenses were \$91.3 million with the General Fund comprising 52% or \$47.5 million of the total. Since the General Fund comprises more than 50% of total revenues and expenditures, its financial health is a key indicator of the ability of the City to pay its financial obligations.

The City is committed to providing exceptional services in the most cost effective manner. As the City's population has grown, the General Fund expenditures per capita and supported Full-time equivalent employees (FTEs) have only modestly increased. (*Refer to Chart E above*).

Revenues (*Refer to Chart F on page 7*)

Property Taxes (\$32.2 million or 53%):

Property taxes consist of real and personal property taxes, paid by Rockville property owners. A little more than half of General Fund revenues are derived from property taxes. The FY08 real property tax rate was \$0.302 per \$100 of assessed home/property value. In FY08 Rockville's personal property tax rate

FY08 General Fund Revenue

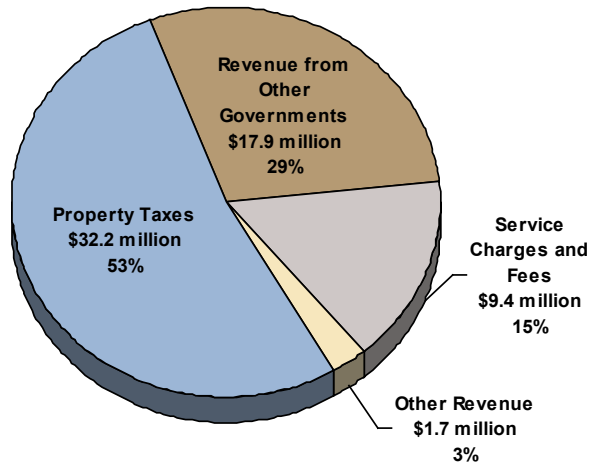


Chart F

FY08 General Fund Expenditures

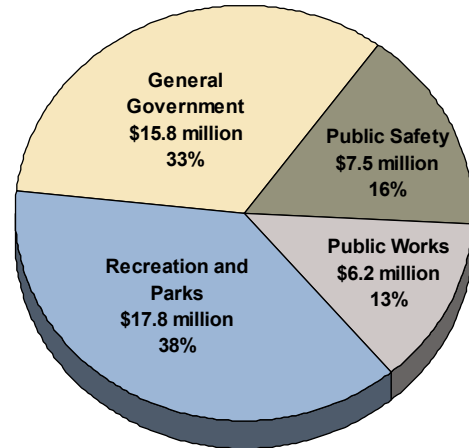


Chart G

was \$0.805 per \$100 of assessed property value. The personal property tax is paid only by commercial entities. In FY09 the real property tax rate was reduced by a penny to \$0.292 per \$100 of assessed home/property value and the personal property tax rate remained the same at \$0.805 per \$100 of assessed property value.

Revenue from Other Governments (\$17.9 million or 29%): The City of Rockville receives payments from Montgomery County, the State of Maryland, and the federal government. These payments are in the form of grants, entitlements, shared revenues and payments in lieu of taxes. The two largest payments in this category are income tax (\$10.6 million) and highway user revenues (\$3 million).

Service Charges and Fees (\$9.4 million or 15%): These charges consist of fees paid by users who individually benefit from a City service. The ten largest revenue generators in this category are: recreation program fees, facility rental fees, recreation membership fees, F. Scott Fitzgerald Theatre tickets, pool admission charges, swim team dues, public works permits, theme park ticket sales, zoning fees and fire safety fees.

Other Revenue (\$1.7 million or 3%): Other revenue consists mainly of proceeds from the auction of retired City vehicles and payment received for overhead costs in the General Fund from the City's proprietary funds.

Expenditures *(Refer to Chart G above.)*

Recreation and Parks (\$17.8 million, 38%): Personnel and operating expenses associated with the City's recreation programs, parks and maintenance of public facilities.

General Government (\$15.8 million, 33%): Personnel and operating expenses of the Mayor and Council, City Manager, Community Planning and Development Services, Finance, Information and Technology, and Human Resources Departments.

Public Safety (\$7.5 million, 16%): Personnel and operating expenses for the City's Police Department and public safety initiatives.

Public Works (\$6.2 million, 13%): Personnel and operating expenses for the Public Works Department. Of the \$17.8 million spent in FY08, 35% (\$6.2 million) was provided by the General Fund and the rest (\$11.6 million, 65%) was from the City's proprietary funds.

Revenues Versus Expenditures *(Refer to Chart H on page 8.)*

By City Charter, the General Fund budget must be in balance, which assures there will be sufficient current resources to pay current obligations. Total revenues exceeded total expenses from FY04 to FY06. In FY07 and FY08 the General Fund expenditures (\$61.4 million and \$62.0 million respectively) exceeded revenues mainly due to planned transfers from the General Fund to other funds.

The General Fund balance is the amount available after all expenditures and other liabilities

FY08 General Fund Revenue Versus Expenditures

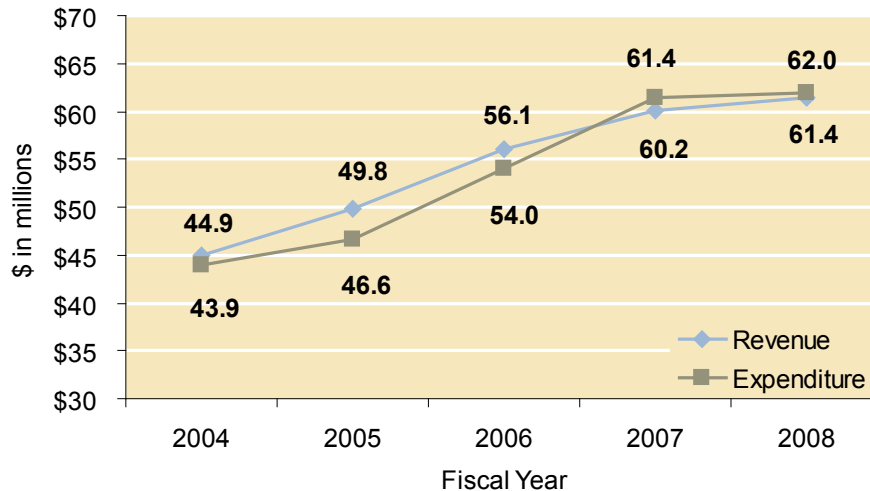


Chart H

have been subtracted. It is important that the City retains a fund balance for emergencies. In FY08 the General Fund balance was \$15 million, which is 24.3% of the General Fund's revenues. The City's policy is to maintain a General Fund balance of 15% of annual adopted General Fund revenues. With the General Fund balance the City is able to pay for capital improvements without relying heavily on debt, and the City also has funds on hand to cover any unexpected shortfalls or expenditures.

The City's Proprietary Funds

The City's proprietary funds are designed to operate as self-supporting businesses where revenues are generated by charges for services. Proprietary funds (or enterprise funds as they are sometimes called) are generally self-sufficient and do not rely on tax generated revenue. Fees are charged to users of the service (i.e. there is a direct benefit to users for fees paid). The City's proprietary funds support the City's four main utilities (water, sewer, stormwater and refuse/recycling) and two public services (golf and parking).

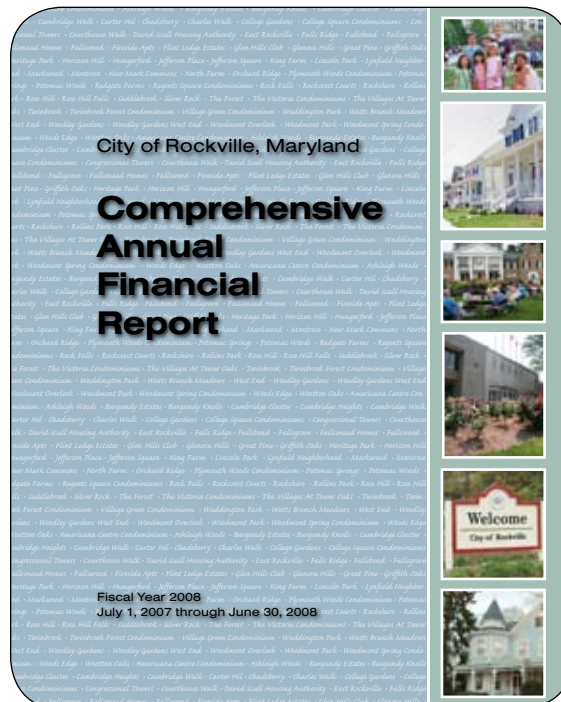
The City's Proprietary Funds' Fees

Utility rates are set each year based on multi-year cash flows. Rates are set to minimize fluctuations and to generate sufficient revenue to cover operating costs. (Refer to Chart I on page 9.)

Proprietary Fund Revenues

In FY08, all proprietary funds earned \$23.2 million in revenue from multiple sources. Charges to end users for services accounted for 80% (\$18.5 million) of revenues. Only a small portion of funds (\$1.7 million or 7.6%) was transferred in from the General Fund. The General Fund provided support to the City's RedGate Golf Course Fund and the Parking Fund. (Refer to Chart J on page 10.)

Charges for Services (\$18.5 million, 80%): Each proprietary fund charges customers for the use of its service. The Water and Sewer Funds charge for the



The City's audited FY08 financial statements can be found at: <http://www.rockvillemd.gov/government/cafir/index.html>

A History of the City's Water, Sewer and Refuse Fund Fees

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Water Rate (per 1,000 gallons)	\$1.99	\$2.07	\$2.26			
Up to 12,000 gallons				\$1.62	\$1.78	\$2.23
Next 12,000 gallons				\$2.33	\$2.56	\$3.20
Usage beyond 24,000 gallons				\$2.50	\$2.75	\$3.44
Sewer Rate (per 1,000 gallons)	\$3.50	\$3.61	\$3.75	\$3.63	\$3.82	\$3.97
Ready-to-Serve Charge (based on meter size)				\$9.00	\$9.00	\$9.27
Refuse Rate (per month)	\$25.50	\$27.75	\$29.50	\$31.00	\$32.70	\$32.70

Chart I

amount of water used by each household. The Refuse Fund charges a monthly fee for the collection of trash and recyclables. The Stormwater Management Fund charges for permits and levies participation fees. The Parking Fund charges parking meter and garage fees. The RedGate Golf Course Fund charges golf course, cart rental and driving range fees.

Other Revenue (\$3.7 million, 16%): Some proprietary funds receive additional types of revenue, specifically the Water and Sewer Funds. The Sewer Fund receives revenue from connection charges and the Water Fund receives revenue from items such as sales of materials and connection charges. Occasionally, proprietary funds earn additional revenue by selling used or retired capital assets. In FY08, a total of \$1.7 million in General Fund transfers were made to the RedGate Golf Course Fund (\$165,000) and the Parking Fund (\$1.5 million), due to the inability of the golf course and parking garages to generate revenue demand to cover their costs of operation.

Interest Income (\$1 million, 4%): Proprietary funds earn revenue from the interest on the balance of cash held in the bank. All the City's cash is pooled together and interest earnings are distributed to funds based on positive cash balances within each fund.

Proprietary Fund Expenditures

The City's financial management policies require a proprietary fund to set fees and rates that cover total direct and indirect operating expenses and all capital outlays and debt costs. Operating revenue usually does not include any funds transferred in from the

General Fund. The exception to this is for funds that actively compete with privately owned businesses such as golf and parking. In these cases the policy requires that the fees and rates cover all direct and indirect expenses.

In FY08 the Water, Sewer and Refuse Funds' operating expenses exceeded operating revenues. The City's other proprietary funds were able to pay for operating expenses from operating revenues and net assets. *(Refer to Chart K on page 10.)*

It is common for proprietary funds to either add to or draw upon their net assets in any particular year, because of the business nature of proprietary funds. This is in direct contrast to the City's General Fund, where it is not acceptable to utilize fund balance to balance the General Fund budget. For proprietary funds the trend in net assets across multiple years is key to the financial health of the fund. Multiple years of decreasing net assets is an indication that revenues and expenditures in the fund need to be evaluated and realigned.

Proprietary Funds: A History *(Refer to Chart L on page 11.)*

Water Fund: The Water Fund is used to account for the financial activity associated with the treatment and distribution of potable water. The Water Fund net assets have decreased significantly since FY04. The decrease in net assets implies that the water rates charged did not generate sufficient revenue to pay for annual expenses (including depreciation). Because of the Water

FY08 Actual Proprietary Fund Revenues

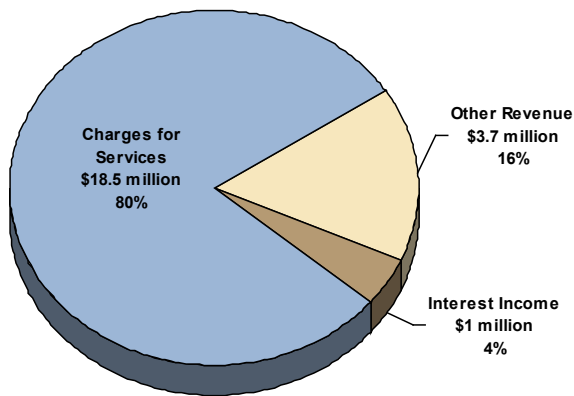


Chart J

FY08 Actual Proprietary Fund Operating Revenues vs. Expenditures

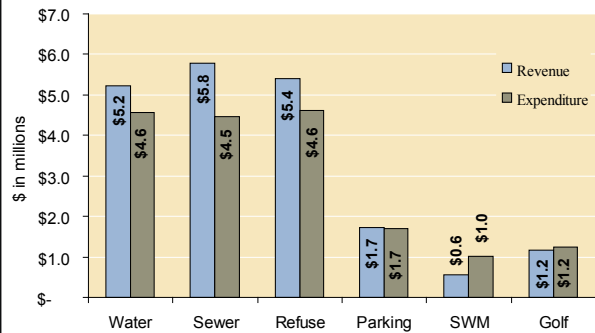


Chart K

Fund's ongoing operating deficits, and as a result of two comprehensive studies released in FY08

What are Net Assets?

Net assets are the difference between all assets (what the City owns) and all liabilities (what the City owes). Net assets use all assets in a fund (including buildings, land, bridges, parks, playgrounds, etc.) and all liabilities in a fund (including long-term debt). A negative change in net assets means that the fees charged for the services were not sufficient to cover expenses. It is important to evaluate the changes in net assets over time as net assets serve as a measure of net worth.

that identified deficiencies in the City's overall water system, starting in FY09 the City increased the water usage rates by 25%. The 25% increase will help cover annual operating costs as well as fund new initiatives as a result of the completed water studies. The City

plans to increase the water rates by 25% for four consecutive years, ending in FY12.

Sewer Fund: The Sewer Fund accounts for the financial activity associated with the collection and treatment of sewage. In contrast to the Water Fund, the Sewer Fund's net assets have increased every year since FY04. Because the Sewer Fund net assets have increased and the fund appears stable, sewer rates will increase each year, but by a much slower rate than the Water Fund. The main challenge in the Sewer Fund is to ensure that future rates are sufficient to cover regular increases in labor costs. From FY08 to FY09 the rate increased by \$0.15 or 3.9%.

Refuse Fund: The Refuse Fund accounts for the financial activity associated with the collection and disposal of refuse, recycling and yard waste. Net assets in the Refuse Fund decreased significantly in FY04 and FY05, prompting the Mayor and Council to review the entire refuse and recycling program. In December 2007, the Mayor and Council approved a semi-automated once-per-week refuse and recycling program that will reduce overall operating expenses because it will need less personnel, contractual services, commodities and equipment. Because of these reduced operating expenses, the refuse rate of \$32.70 remained unchanged from FY08 to FY09. Full implementation of the City's new refuse and recycling program will take 18 months and the refuse rate will remain stable at \$32.70 until then.

Parking Fund: The Parking Fund accounts for the revenue and expenses from parking related activities, including the issuance of parking tickets, the parking meter program, and the costs associated with the construction and operation of the three public parking garages in the City's Town Square. FY08 was the first full year that the Town Square parking garages were open, although the garages did not charge for parking for the first half of FY08. FY09 will be the first full year of revenue collection for the Town Square garages. It is clear that current rates will not generate sufficient revenues to cover annual operating costs. In FY08, the General Fund contributed \$1.5 million to assist the Parking Fund with its annual operating deficit.

Stormwater Management Fund: The SWM Fund accounts for the financial activity associated with

Proprietary Funds: A History

		Water	Sewer	Refuse	Parking	Storm Water	Golf
FY04	Beginning Net Assets	16,077,105	23,638,320	1,269,238	1,029,873	13,635,792	1,938,618
	Ending Net Assets	15,039,473	24,340,919	869,277	1,406,450	13,585,572	1,797,512
	Change in Net Assets	(1,037,632)	702,599	(399,961)	376,577	(50,220)	(141,106)
FY05	Beginning Net Assets	15,039,473	24,340,919	869,277	1,406,450	13,585,572	1,797,512
	Ending Net Assets	14,199,766	25,402,898	798,867	2,728,463	13,104,741	1,656,984
	Change in Net Assets	(839,707)	1,061,979	(70,410)	1,322,013	(480,831)	(140,528)
FY06	Beginning Net Assets	14,199,766	25,402,898	798,867	2,728,463	13,104,741	1,656,984
	Ending Net Assets	12,653,889	25,675,110	969,146	3,742,102	12,766,472	1,547,293
	Change in Net Assets	(1,545,877)	272,212	170,279	1,013,639	(338,269)	(109,691)
FY07	Beginning Net Assets ¹	12,653,889	34,030,947	969,146	3,742,102	12,766,472	1,547,293
	Ending Net Assets	12,305,981	34,994,553	1,476,745	(3,115,204)	11,269,493	1,517,135
	Change in Net Assets	(347,908)	963,606	507,599	(6,857,306)	(1,496,979)	(30,158)
FY08	Beginning Net Assets	12,305,981	34,994,553	1,476,745	(3,115,204)	11,269,493	1,517,315
	Ending Net Assets	11,402,931	35,037,847	2,179,310	(2,787,716)	10,972,494	1,470,719
	Change in Net Assets	(903,050)	43,294	702,565	327,488	(296,999)	(46,596)

¹ In compliance with GASB 34 Beginning Net Assets of the sewer fund were restated to record infrastructure assets acquired prior to July 1, 2002.

Chart L

treating rainwater runoff by trapping pollutants and slowing the water's release rate. Since FY04 revenues have not been sufficient to cover costs. The Mayor and Council and City staff are working on a plan to address the financial health of this fund by charging a utility fee based on the impervious surface area (i.e., a solid surface that does not allow rain water to pass through to the ground) of all residential and commercial properties in the City. The new fee, if approved, would be implemented in FY10. This Fund currently has a large balance.

RedGate Golf Fund: The RedGate Golf Fund accounts for the financial activity associated with the City's public golf course. Net assets in the RedGate Golf Fund have decreased every year since FY03. An aggressive business plan to improve the

financial health of the fund was presented to the Mayor and Council in March 2006. FY08 was the second year of the five-year business plan intended to help the golf course generate sufficient revenues through fees and charges to pay for the costs of operations, capital outlay and infrastructure improvements. Although the City is only halfway through the plan, the fund continues to have a substantial deficit. Staff is currently reviewing the original five-year business plan and will analyze different options with the ultimate goal of improving fiscal performance in the upcoming years.

Working Capital

The City's proprietary funds are established to emulate small businesses. A key measure of short-term liquidity in the private sector is working capital. Working capital is different from net assets. It is defined as the difference between current assets and current liabilities. As in the private sector, the City's proprietary funds can have assets and be profitable, but not have enough liquidity. Positive working capital means the fund can pay for current expenditures from current assets such as cash, accounts receivables and inventory. Large spikes in working capital are due to the issuance of bonds. The City issued bonds in FY06 for Capital Improvements Program (CIP) projects in the Water, Parking and Sewer funds. In FY08 the City issued bonds for CIP projects in the Water, Sewer and Refuse Funds.

If working capital declines over a long period this can be an indication that the fund's revenue



Stormwater Management, Sewer and Refuse Funds' Working Capital History

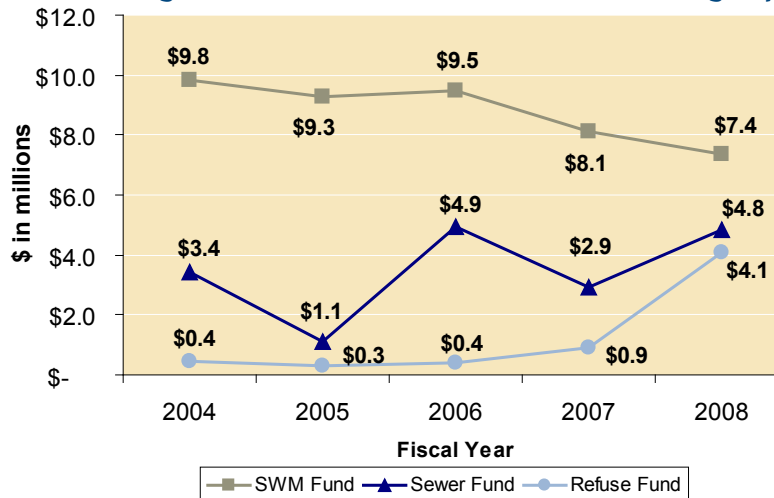


Chart M

sources and levels of expenditures need to be evaluated.

The City's Water Fund and Golf Fund both have two or more years of negative working capital. To address the concerns in the Water Fund in FY09 the City increased water rates by 25%. The City will review the five-year plan for the Golf Fund in FY09 to make recommendations for the FY10 Golf Fund budget. (Refer to Charts M and N)

Summary of the City's Debt

The City issues general obligation bonds to raise large sums of cash to build and improve City services and infrastructure. As described in the City's financial management policies, any debt issued, including bonds, must be used to fund significant capital and infrastructure improvements and cannot be used to fund operating or routine maintenance costs. General obligation bonds are backed by the City's unlimited taxing power. Internally, bonds are divided into those that will support governmental activities and those that will support business-type activities. Bonds used to support governmental activities are paid using general tax revenues. Bonds used to support business-type activities are paid by each individual proprietary fund through utility rates and fees.

In FY08 the City issued approximately \$21 million in new bonds. Each year the City pays both principal and interest on all outstanding debt.

In FY08, the City paid a total of \$6.9 million in principal and interest on outstanding debt. Due to the new issuance and the City's payments bonded debt only increased by \$13.4 million (13.5%) compared to FY07. (Refer to Chart O on page 14.)

Our Bond Ratings

At every bond sale the City is evaluated by two nationally recognized credit rating agencies: Moody's Investor Services and Standard and Poor's. The credit rating agencies evaluate Rockville based on four categories: debt burden, management, financial performance and the City's economic base.

The City has earned the highest bond rating from both Standard and Poor's (AAA) and Moody's (Aaa), which is a remarkable achievement for a city the size of Rockville. This means the industry considers our bonds to be of the highest investment grade. The City's high ratings show that outside investors are confident in our ability to repay our debt, and are comfortable with the stability of our tax base and our future prospects as a community. Triple A bond ratings save taxpayer money because the City is able to borrow money at the lowest possible interest rate.

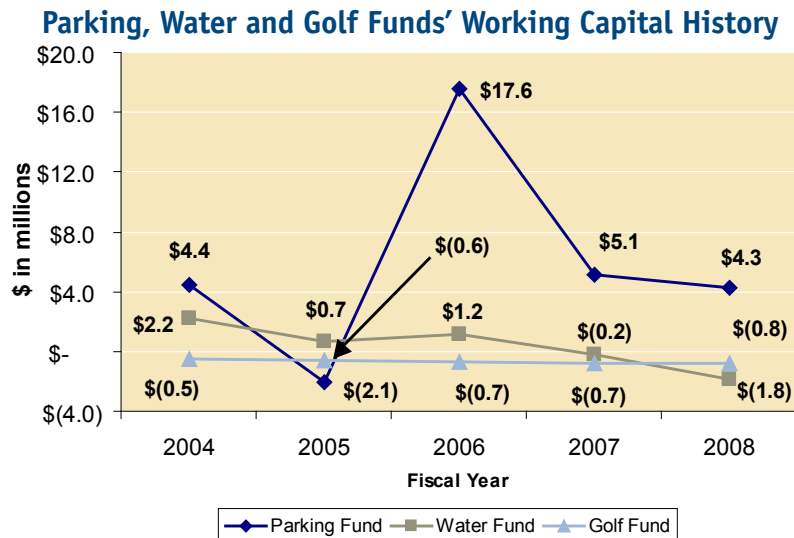


Chart N

The City's Capital Improvements Program (CIP)

Each fiscal year the City prepares an Operating Budget and Capital Improvements Program (CIP) Budget. The CIP is a fiscal and a planning device that details the City's capital investment plan

over a five-year period. The CIP is funded from pay-go (i.e., cash), bonds, grants and other outside sources. The CIP is the only location in the City's budget where bond funding is used. The City's FY08 CIP included prior

and new appropriations of \$92 million. The FY08 CIP continued the City's investment in health and safety through the City's Asphalt Pavement Maintenance, Baltimore Road, College Gardens Park, Swim Center Meeting and Fitness Room, and Gude Drive Maintenance Facility projects. Near the end of FY08 the City also began a major new program to replace all residential water meters.

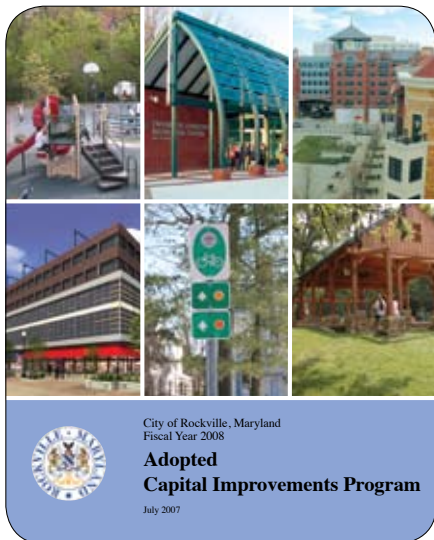
Major FY08 Initiatives

Every two years the Mayor and Council meet to develop a ten-year, long-term, vision for Rockville, which includes short-term priorities the City should pursue. In January 2008, the Mayor and Council identified seven major themes: Economic Development and Sustainability; Cultural Destination; Community Engagement; Distinct Neighborhoods, One City; Exceptional City Services; Green City; and Quality Built Environment. Listed below are major initiatives the City completed or substantially paid for in FY08 to achieve the Mayor and Council vision for the City of Rockville.

Economic Development and Sustainability

Thomas Farm Community Center: The Thomas Farm Community Center is an eco-friendly facility that will serve and enhance the community and reduce maintenance and upkeep costs through its many "green" features. Although the community center is scheduled to open in FY09, in FY08 the City spent \$2.3 million toward the construction of this center.

The City Supports Historic Property Owners: The County, State and federal governments offer tax credits to help supplement the cost of maintaining historic properties. In FY08 the City started a new program that encourages property owners to bring their State tax credit forms to the City's Community Planning and Development Services Department in City Hall to meet with professionals who will help complete these forms at no cost.



A History of the City's Outstanding Long-Term Debt

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Governmental Activities	46,024,724	43,489,736	41,911,464	\$37,806,036	\$43,661,954
Business-Type Activities	22,787,310	22,384,323	63,783,181	\$61,234,530	\$68,836,288
Total	68,812,034	65,874,059	105,694,645	99,040,566	112,498,242

Chart 0

Environmental Sustainability: Through a new energy performance project the City saved \$200,000 in utility costs in FY08.

Financial Sustainability: The City received a rare AAA/Aaa bond rating in FY08 from Standard and Poor's and Moody's respectively. Rockville's credit rating was upgraded because of the size of the City's tax base, its robust local economy and sound financial management.

Cultural Destination

Public Art and Sculpture: In FY08 the City installed four works of art in Town Square and several art commissions were awarded.



The four works of art are:

"Crossroads" by Craig Kraft on the Hungerford Drive Parking Garage facade (\$89,000); "Under One Roof" by Dan Snyder on the Maryland Avenue sidewalk adjacent to Rockville Town Square (\$40,000); "Untitled" by Ed McGowin and

Claudia DeMonte on the N. Washington Street parking grills (\$90,000); and "Clio" by Howard Kalish in the seat-wall area next to the Rockville Library (\$30,000).

Award of art commissions were given to: Megan Marlatt for "hat-themed" banner on the condominium building in E. Middle Lane (\$20,000); Beverly Ress for "Things Left Behind" on Gibbs Street (\$40,000); Willam Cochran for "Cornerstone" on the concave wall at N. Washington Street and Beall Avenue (\$28,000); and Jimilu Mason for statues of Mattie Stepanek and Micah for Mattie J.T. Stepanek Park (\$153,679).

Community Engagement

Video On Demand: To further the Mayor and Council vision of making the public's access to government fully open, Mayor and Council meetings were made available on demand in FY08 via the City's Web site. The initial cost to implement the system was \$40,000 and the City will pay \$21,250 annually to maintain and provide the service.

Electronic Agenda System: In FY08 the City developed a new electronic agenda system, named eGenda, to create, track, approve and publish Mayor and Council meeting agendas to the web. This new system allows distribution of Mayor and Council agendas and supplemental information to citizens and constituents in a more accurate, efficient and environmentally-friendly manner.

Distinct Neighborhoods, One City

Community Gyms: In FY08 the City completed its Community Gym Contribution CIP project. This project was created to fund the City's contribution to Montgomery County Public Schools to construct larger gymnasiums that include larger courts, space for



bleachers, and other amenities such as a scoreboard, and multiple volleyball stations. The City spent all of the \$700,000 budgeted for this project by the end of FY08.

New Parks and Facilities: The City designed and constructed a new park and exercise area specifically for dogs and their owners. The dog park is located at the Mattie J.T. Stepanek Park. The final cost of the dog park was \$50,000.

Exceptional City Services

New Maintenance Facility: In FY08 the City broke ground on a project to modernize and expand the City's Gude Drive Maintenance Facility. This project is scheduled for completion in FY10. In FY08 the City spent \$2.8 million dollars in construction costs; the project is expected to cost a total of \$9.9 million.

New Town Center Shuttle: In FY08 the City contributed \$242,945 to Montgomery County for the purchase and operation of new buses to provide frequent and convenient access to Town Center with connections at Rockville Metro Station and Fallsgrove Transit Center. The buses will be branded as Town Center shuttles. The City expects the new buses to be operational by January 2009.

Water System Improvements: Every year the City makes a commitment to improve infrastructure in order to deliver exceptional city services. In FY08 the City completed the replacement of approximately 1,500 feet of a 12-inch water main on Adclare and Roxboro Roads at a total cost of \$447,120.

Green City

Improvements to the City's Waterways and Watersheds: As in many urban areas, the health of the City's waterways and watersheds is threatened. Urban landscapes are typically made up of impervious surfaces (pavements, rooftops, etc.). This can increase the quantity of rain runoff, which can overwhelm the City's natural waterways and watersheds. Too much water runoff can cause erosion, flooding and eventually property damage. The City has and continues to make large investments in improving our waterways and watersheds. In FY08 the City completed five major stormwater management projects at a final costs of \$3.2 million.

The five projects are: Alsace Lane – Stream Improvement (\$264,676); Lincoln Park – Drainage (298,518); Rockcrest – Stream Improvement (\$996,998); Woottons Mill Park – Middle (\$817,673); and Woottons Mill Park – Upper (\$839,708)

Quality Built Environment

Pedestrian Safety Initiatives: In FY08 the City finished the Bicycle Route System Improvement project, which implemented projects that were identified in the Bikeway Master Plan. The total cost of this project was \$960,845. The City also dedicated the Sister City Friendship Bridge over Interstate 270 in October 2007. In FY08 the City spent \$1 million to construct the bridge.



City of Rockville

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